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SUBJECT: UKRAINE: EUR A/S FRIED HEARS ABOUT FRAGILE POLITICAL SITUATION

Classified By: Ambassador for reasons 1.4(b,d).

¶1. (C) Summary. In A/S Fried's meetings with top Ukrainian leaders, all dominated by discussions about Ukraine's pending request for a NATO MAP (septel), the internal political subtext was fragility, distrust, and creeping dissatisfaction from all parties about the current government and its possibly short future. Prime Minister Tymoshenko said that the orange coalition was working and she was trying to unite the country, but accused the President of continually cutting her down and negotiating a possible broad coalition with Party of Regions leader Yanukovych. Presidential Chief of Staff Baloha also acknowledged (with ill-concealed satisfaction) that the coalition was unstable and he could not predict how long it would last. Rada Speaker Yatsenyuk also mentioned the fragility of the coalition and complained that he was trying to keep the majority intact and move forward, and to engage the opposition constructively, but it was difficult going. Opposition leader Yanukovych took the opportunity to argue that politics had been more stable and the economy stronger under his tenure and promised that he would be back sooner or later. Leading journalist Mostova confirmed to Fried that she understood Yushchenko and Yanukovych were talking about a possible future government.

¶2. (C) Comment. A/S Fried made the point in every meeting that a major test of the Ukrainian government's seriousness about NATO would be its ability to produce results domestically. His interlocutors all acknowledged the hard road ahead and all said they sought cooperation, but it is not clear they took the message of the importance of political stability and good governance. On the orange side, all acknowledged that it was important for the partners to get along and not repeat the mistakes of 2005, but it is clear that the Presidential Secretariat is keeping its options open if the coalition fails. End summary and comment.

Tymoshenko: Limited Time and Freedom to Work

¶3. (C) Prime Minister Tymoshenko expressed a commitment to make the orange team work and pledged not to repeat the mistakes (her mistakes) of 2005 that had resulted in her dismissal by the President. Nonetheless, she offered a somewhat bleak assessment of the level of cooperation in the orange ranks. In her view, it was no secret that even though the democratic coalition had been formed, it was still unstable and it was uncertain whether the President would be re-elected. Tymoshenko said that she was forced today to balance both separate parts of Ukraine without losing sight of her own goals for her government. She needed to unify east and west and she was trying to do that using social programs - "not because I like them, but because they are the only secure way to unify the situation in Ukraine."

¶4. (C) She recalled that after the Orange Revolution, for

about six months, there had been a unique time when the nation was unified, expectations were high and social programs could have been implemented. However, "one person" (presumably Yushchenko) had destroyed this - and now they were starting again, not from zero, but from minus 100. (Comment: perhaps, but she as well as Yushchenko did not use the political Capital of the Orange Revolution during those early months.) In the PM's view, the government needed to create circumstances to give the population unity and some hope, particularly by helping Ukraine's poor - "I know how to do this, I understand Ukrainian society and there are the same processes in place that were taking place in 2005." Taking a jab at Yushchenko, the PM said that "every step I take it, he criticizes me in order to ruin our unified team, and it is more and more difficult to do anything." She said that the President had a rating of 10-11% and that it was difficult to maintain a majority with the democratic coalition; however, "if we do not remain one team, then our hopes will remain dreams."

¶15. (C) She noted that the Speaker "was on the verge of resigning," the Parliament had been blocked in its work, and the Party of Regions and the Communists had been resurrected from the ashes like phoenixes - all because of the release of the letter signed by the President, PM and Speaker requesting MAP. In the mass media, opposition to the letter was running at 70%. And now she understood that the Presidential Secretariat had agreed to work with Regions to re-form a

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coalition. Exasperated, Tymoshenko asked a series of unanswerable questions: "in a situation like this, how can I reaffirm the democratic team? Support the re-election of the President? Push democratic reform?"

¶16. (C) Note. Tymoshenko's comments echoed something that

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highly respected Dzerkalo Tizhnya deputy editor Yuliya Mostova told A/S Fried later the same day. Mostova said that she had heard there was a meeting on January 23 between Yushchenko and Yanukovych during which they discussed a possible plan in which Yanukovych would agree to become Prime Minister with limited powers under a new CabMin law. Under this scenario, Lytvyn would become Speaker in a coalition between half of OU-PSD, Lytvyn Bloc, and Regions. Yushchenko would then be free to jettison Tymoshenko; in exchange, Yanukovych would agree not to run for President in 2009/2010.
End note.

Baloha: Stability Will Take Time

¶17. (C) In contrast to Tymoshenko's frustration, a confident Presidential Secretariat Head Baloha said the President had come back from Christmas vacation determined -- Secretary Rice had witnessed this determination in Davos, he said. Yushchenko was in good physical shape and was proud that he has started powerful and important work. In fact, Baloha admitted that although he was a workaholic, January had been very hard for him because the President had issued so many strategic objectives, it was hard to keep up. (Embassy Note: Over the past few months, we have noticed that Yushchenko appears to be physically much stronger than the past few years, with more energy and focus; even the scars on his face are less noticeable and in general, his face is less bloated.
End note.)

¶18. (C) In answer to A/S Fried's question about how effective the government will be, Baloha said that he would not be saying anything new if he said it would not work smoothly. He expected they will go through "another round of events." There was a lot of distrust within the coalition, with everyone trying to deceive everyone else. Tymoshenko had already started her presidential campaign. Regions was counting on new Rada elections in the fall. The President,

Baloha said, was working to get all sides to sit at one table. They would have to see if they could work together for the next two months, but he couldn't give a guarantee right now that everything would be okay.

¶ 9. (C) Baloha said he was just calling it as he saw it. The goal now was compromise, adjustment, and understanding; the alternative was to return to last year. What society wants is stability -- that depends on two people (i.e. Yushchenko and Tymoshenko) and their ability to make concessions. Once this happens, we'll have a team, but so far he had not seen this harmony. Baloha added that it would be wrong to say that they don't want to cooperate; it was just that everyone had their own vision of truth.

¶ 10. (C) Later in the meeting, Baloha's evenhandedness slipped and he implied that Tymoshenko was not running the policy process as they had agreed she would. The coalition agreement, according to Baloha, says that the Cabinet will work via government committees that would involve all parts of the government on all policies, but Tymoshenko does not like committees and prefers to adopt all decisions herself. So far, not one government committee has met. To be blunt, Baloha said, there are people with no right to draft Cabinet documents who are doing so behind closed doors. (Note. He did not offer any details. End note.) Tymoshenko and Yushchenko both have enough patience to prevent conflicts, but it is important to ensure that the principles of the coalition are fulfilled. Otherwise, it will lead to war.

Yatsenyuk: Doing the Best They Can With What They Have

¶ 11. (C) Rada Speaker Yatsenyuk also told A/S Fried that the coalition was fragile. A/S Fried said that there have been plenty of fragile coalitions in Europe that have still managed to accomplish quite a bit. He added that the best defense of Ukraine's sovereignty (i.e., from Russia) would be an honest banking sector, rule of law, and a good energy policy. In response to the question whether the government will be effective, Yatsenyuk replied that it mostly depends on Tymoshenko. He had told the PM that she needs to do a better job now than she did in 2005 - avoid reprivatizations and price controls. Yatsenyuk said he had also sharply criticized her for focusing on repaying investors from the former Soviet savings bank (Oshchadbank) -- the PM should be focused on broader, more important issues, like curbing inflation, energy policy, and a privatization plan. Instead, the PM sounded like she was still campaigning.

¶ 12. (C) Yatsenyuk believed the Rada will probably pass the government program -- he was trying to find 226 votes, just

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like they did for the budget -- to show that the coalition is backing the government. Yatsenyuk tried to avoid answering Fried's question whether the government program was a good one -- when pressed, the Speaker finally said it was not good, but neither was the budget. The point was that they were providing Tymoshenko with something substantive to work from.

¶ 13. (C) In the Rada, Yatsenyuk said, he was trying to cooperate with the opposition and bring the two sides together. Sometimes it was very difficult, but that's how business goes in the parliament. Interestingly, on the way into the meeting, Fried said "congratulations on your new position. Or maybe it should be condolences," to which Yatsenyuk replied "definitely more condolences."

¶ 14. (C) Fried asked Yatsenyuk what he thought the government's top priorities should be. In the economic sphere, Yatsenyuk said: curbing inflation, stabilizing the financial sector because of international turbulence, simplifying the tax code, demonopolizing the Ukrainian economy, and dealing with an energy policy and prices. In

the social sphere, Yatsenyuk believed that there were far too many exemptions and privileges given to different groups of people. For example, the pension fund is insolvent and heavily subsidized by the government; it needs to go away, but it is politically unpopular to say so, so no one does it.

Yatsenyuk thought the key priorities for the security sector were NATO and real defense sector reform. He said that Ukraine should have a powerful defense industrial sector, but lacked money and political will to reform it.

Yanukovych: You Need Regions to Have Stability

¶15. (C) Opposition leader Yanukovych began the meeting citing the achievements of the government under his leadership in 2006-07. Despite the political crisis, the economy had continued to grow in a stable fashion. Regions, with the help of international advisors, had developed a program of economic reform that was now on the back burner. Yanukovych, who earlier had intoned that there were no final victories and no final defeats in politics, said he hoped to restart the program when he returned to power. Unfortunately, the new government appeared to have settled on a program very similar to the program in 2005, which had been criticized both domestically and internationally.

¶16. (C) Yanukovych said the current political situation was complex, with the coalition ruling with a razor-thin majority. Such a situation made it difficult to implement reforms. He noted that had Regions been part of a coalition, the problem would not have existed. Now, the main problem would be continuous instability, or, as he put it, a "stable instability." The key would be whether the new government would try to work constructively with all political forces, but he opined that there would be an increase in dissatisfaction at all levels of society. Toward the end of the meeting, Yanukovych affirmed that Regions would not become a radical political force, but instead would always try to improve Ukraine's future -- Ukraine needed stability.

¶17. (U) Assistant Secretary Fried cleared this cable.

¶18. (U) Visit Embassy Kyiv's classified website:
www.state.sgov.gov/p/eur/kiev.
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